

## **GASB STATEMENT 34 IMPLEMENTATION ISSUES**

### **Compensated Absences – Short-term & Long-term Liability**

#### **Issue**

To determine how to arrive at the short-term (current) portion of the balances of compensated absences and reporting requirements for the short-term and long-term portions under GASB Statement 34.

#### **Background**

Compensated absences are currently being accounted for in the General Long Term Debt Account Group. The reporting requirements under GASB Statement 34 will require the short-term portion (those that are due in one year or less) of the liability for compensated absences to be presented separately from the long-term portion. This will require a procedure to determine the amount of this short-term or current portion.

The amounts reported as compensated absences are “benefits earned by employees” consisting of vacation or annual leave and compensatory or “K time” earned for overtime which can either be straight time hours or time and a half. These compensated absences are accrued based on the requirements of GASB Statement 16. Sick leave is not accrued because sick leave benefits are not considered compensation until they are used when an employee is ill, not when it is accumulated. GASB 16 also requires salary-related payments to be accrued which include employer’s share of social security taxes, employer’s share of Medicare taxes, and employer’s contributions to retirement plans.

#### **Discussion of Alternatives**

There could be numerous possibilities to derive the current portion of compensated absences. The GASB 34 gives no guidance as to how it should be calculated. We will use the simplest approach, one that is most cost effective and one that will more closely estimate the actual liability. The existing mainframe program can only provide a total leave liability which does not break down the liability into current and long-term portions. Therefore, manual calculation is needed to derive the current portion of compensated absences. The methods under consideration are:

1) An actuary can be used to calculate the leave taken similar to what Group Benefits does. This would involve hiring an actuary to compile the reports. This would be the most costly approach and would also involve using an “outsider” to provide information which may not always be a timely approach.

2) Alternative 2 has been revised to be consistent with the college Q&A #16 on OSRAP’s website, which is listed below:

Use the following methodology for determining the current portion of compensated absences liability:

For fiscal year 2000, 2001, and 2002, determine the amount of leave actually paid to employees who terminated employment or retired. Add these amounts and divide by 3 to obtain an average. The resulting amount is an estimate of the current portion of compensated absences liability. This amount should be reported in the current liability section of the Statement of Net Assets for fiscal year 2002.

The amount calculated above would then be subtracted from the total compensated absences at the end of 2002 and the difference would be the non-current portion of compensated absences.

The averaging method should be based on a maximum of 3 years starting in fiscal year 2002. This will become a rolling 3-year average in subsequent years as you drop off the last year (i.e., 2000) and add the next year (i.e., 2003). For your conversion in 2001, the use of 2 year averaging is acceptable.

3) Another method would be to take an average of five prior years' leave taken and use that amount as the current portion for the current year. This approach would be taking into account big fluctuations from one year to the next and would be fairly simple to derive once the system's historical data is set in place. This approach would also require a change to the report format on the current system.

### **Recommendation**

We are recommending Alternative 2 because this is the simplest approach and it will provide a good measure of the current liability despite fluctuations that may occur from one year to the next.

We have already initiated the process of ensuring the new system being implemented will have the ability to capture the information needed. Also, we have requested State Payroll to implement the changes we need within the old system in order to begin capturing data for total leave paid.